



**Bulletin of Islamic Research**

ISSN (Online): 3031-4526

Received: 04-07-2024, Revised: 26-07-2024

Accepted: 05-08-2024, Published: 26-08-2024

DOI: 10.69526/bir.v2i4.63

## **Goods Pawning Practices in Bilalang Satu Village and Their Conformity with Islamic Economic Principles**

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### **Abstract**

*Bilalang Satu Village is a village in Bilalang Subdistrict, Bolaang Mongondow Regency, North Sulawesi, where the majority of residents are Muslim. On several occasions, they have engaged in pawning practices to meet financial needs. Unfortunately, the current pawning practices are deemed non-compliant with Islamic Law, for example: 20% monthly interest rates without time limits, smaller loan amounts compared to the pawned item's value, creditor intimidation during default, and weak legal instruments protecting pawn customers. The community's lack of understanding regarding Sharia pawning further aggravates this situation. This study aims to analyze the Sharia compliance of pawning practices in Bilalang Satu Village and formulate recommendations for reform. The research utilizes a qualitative method with a case study approach. Data collection is conducted through in-depth interviews, observations, documentation review of pawning contracts, and literature review. The collected data is then qualitatively analyzed from an Islamic economic perspective. The results show that asset pawning in this village has minimal compliance with Sharia principles and provisions, making it potentially exploitative and detrimental to villagers. The recommendations formulated include: massive socialization and regulation of Sharia pawning, establishment of a Sharia Pawning Cooperative, as well as sustainable educational and assistance programs. These reform efforts require a participatory approach to be genuinely accepted by villagers. Thus, it is hoped that pawning practices in Bilalang Satu Village will be able to align with the principles of justice in the Islamic economy.*

**Keywords:** *Bilalang Satu Village; Islamic Economics; Sharia Pawning; Reform.*

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## Introduction

The practice of pawning goods has long been an alternative financing method for rural communities with limited access to capital [1], [2]. Pawning is viewed as a practical solution for obtaining business capital by micro, small, and medium enterprises (MSMEs) as well as for household consumption financing in rural areas [3]–[5]. Unfortunately, in practice, pawning in rural areas is prone to problems. Several studies indicate that pawning often applies high interest rates and deductions of up to 50 percent from the estimated value of pawned goods, which is detrimental to customers [6]–[9]). This condition certainly contradicts the spirit of justice and benevolence in Islamic economics.

A number of previous studies have examined the implementation of Islamic pawning in various regions, such as that conducted by Bukido & Hasan [10]. They analyzed the application of the *ijarah* contract in *rahn* products at the Istiqlal Manado Sharia Pawnshop Branch. The results showed that the implementation of the *ijarah* contract still requires systematic review regarding its compliance with the National Sharia Council-Indonesian Council of Ulama (DSN-MUI) Fatwa No. 25 of 2002. On the other hand, research by Hasan & Luntajo [9] found that the auction process of pawned goods at the Istiqlal Manado Sharia Pawnshop Branch Office was already in accordance with sharia based on the DSN-MUI Fatwa regarding the sale of *marhun* (pawned goods). Conversely, some studies outside Indonesia, such as Abiodun [11] in his research titled "Pawnshop labour and mediation in colonial Osun division of southwestern Nigeria," found that the practice of pawnshop in Nigeria has been ongoing for a long time. This practice was not entirely without customary protection against the possibility of exploitation. Meanwhile, Bhatt & Sinnakkannu [12] in their article "Ar-Rahnu (Islamic pawning broking) opportunities and challenges in Malaysia" stated that the practice of Islamic pawnbroking (Ar-Rahnu) in Malaysia still faces challenges in the form of unfair interest rates and recovery practices. Their research suggests the need to open more Islamic pawnshops in rural and densely populated areas to avoid monopoly. Additionally, Neave [13] also conducted a study related to alternative dispute resolution schemes in Australian banking, one of which included pawning. Her research recommends improving the quality of pawning practices through cooperation between the government and pawnbroking associations.

Pawning practices in developing countries are often characterized by various sharia deviations that potentially harm and exploit the community. Therefore, an in-depth study regarding pawning practices in the Indonesian context is crucial to protect vulnerable rural communities. This research will specifically analyze the level of sharia compliance in the practice of pawning

goods that takes place in Bilalang Satu Village. Demographically, Bilalang Satu Village is an agrarian village with a majority Muslim population that is highly dependent on pawning goods for both business capital and daily needs. This high dependency condition is certainly very risky if the ongoing pawning practice does not comply with sharia principles. Therefore, the results of this study are expected to provide appropriate recommendations for stakeholders in improving pawning practices to align with Islamic values.

Despite these previous studies, research on Islamic pawning in rural areas remains scarce. Previous researchers in Indonesia have only focused on the application of pawning in Islamic financial institutions, while discussions on pawning have also been addressed in contexts outside Indonesia. In fact, rural communities are very vulnerable to being trapped in problematic pawning practices. Therefore, this research is important to analyze sharia compliance in pawning goods in Bilalang Satu Village.

This research aims to: 1) analyze the mechanism of pawning goods in Bilalang Satu Village; 2) assess the conformity of these pawning practices with Islamic economic principles; and 3) formulate policy recommendations to ensure that pawning practices in Bilalang Satu Village increasingly comply with Islamic sharia. The results of this study are expected to provide valuable input for stakeholders in supervising and improving the practice of pawning goods in rural areas.

## **Method**

This research employs a qualitative approach with a case study design [14], [15] to gain an in-depth understanding of the practice of pawning goods in Bilalang Satu Village. The qualitative approach is chosen to obtain a holistic and detailed understanding, while the case study allows researchers to examine the phenomenon of pawning goods in Bilalang Satu Village in a detailed and profound manner.

The object of study is the practice of pawning goods by the community of Bilalang Satu Village itself. The unit of analysis includes pawning transactions along with the implementation of pawning mechanisms and rules at the research site. Data is collected from various relevant sources, namely documents and pawned collateral, pawners and pawnbrokers in Bilalang Satu Village, literature on Islamic pawning concepts and practices, as well as related fatwas and regulations.

To obtain this data, this study employs several methods such as observation, interviews, documentation study, and literature review. Observation is conducted to directly observe the practice of pawning goods and

its mechanisms. Interviews with pawners and pawnbrokers aim to obtain in-depth information from both parties. Documentation study is carried out on transactions and pawning rules at the research site. Meanwhile, literature review examines concepts and theories related to Islamic pawning practices from various sources.

The collected data is then analyzed using a qualitative approach through the stages of data reduction, data presentation, data verification, and drawing and verifying conclusions. The analysis is conducted based on an Islamic economic perspective to answer the research questions previously posed.

## **Result and Discussion**

### **Pawning Practices in Bilalang Satu Village**

Bilalang Satu Village is one of the villages in Bilalang District, Bolaang Mongondow Regency, North Sulawesi. The majority of its population is Muslim. The practice of pawning in this village has become a custom that is inseparable from the lives of its people. Villagers tend to choose to pawn items to fellow villagers rather than involving the government or official pawnshops.

According to M.M., a resident of Bilalang Satu Village, the party wishing to borrow will hand over goods as collateral to the lender with an agreed interest of about 20% per month. The principal debt and interest must be paid within a certain agreed period. However, in practice, there are several things that are contrary to Islamic teachings.

For example, Party A pawns gold worth 100 grams to the lender. The money borrowed is only worth 80 grams of gold. Every month Party A must pay 20% interest on the principal debt. Interest continues to apply every month until the principal debt is returned. If not paid, the lender will collect in an impolite manner, such as embarrassing on social media.

The current pawning practice in Bilalang Satu Village is quite prevalent and in high demand by residents. As stated by Choirunnisak and Handayani [16], this is due to the ease and speed of the loan disbursement process through pawning offered. Residents only need to pledge valuable items such as gold, motorcycles, or electronics to get a certain amount of cash quickly. Loan funds are usually used by residents for consumptive purposes or to cover business capital shortages [[17].

Unfortunately, the understanding of Bilalang Satu Village residents regarding the correct pawning mechanism is still very limited. Most residents do not understand that imposing interest on pawn loans is actually prohibited in Islam, especially if it is considered burdensome [18]. The lack of Islamic financial

literacy is the main cause of this. Related parties such as the village government and the Cooperative Office, Islamic economic extension workers at the local Religious Affairs Office need to increase socialization and correct Islamic pawning training to residents.

One of the obstacles that makes residents reluctant to switch to Islamic pawnshops is the process which is considered more complicated and the longer disbursement time compared to pawning at official financial institutions. Therefore, a breakthrough in the Islamic pawning business model is needed that is more competitive in terms of ease and speed of service. Thus, the community no longer has a reason to switch to non-sharia pawning practices.

From our observations, the majority of pawnshops in Bilalang Satu Village still have not implemented the Islamic concept. They still impose an interest system in pawning transactions. Ideally, the village government together with community/religious leaders can collaborate to educate pawn organizers about the implementation of a system that complies with Islamic law to avoid elements of usury. The government needs to encourage improved services for providing incentives for Islamic pawnshops, such as ease of licensing and access to cheap capital. Thus, Islamic pawning practices can increasingly develop and be of interest to the community.

Related parties such as academics, Islamic economic practitioners, and financial institutions need to intensify massive Islamic pawning literacy and education programs for residents of Bilalang Satu Village. The aim is to increase public understanding regarding pawning mechanisms that comply with sharia so that usury practices can be reduced. Programs such as counseling, training, mentoring, to business internships can be carried out so that the community better understands the correct application of Islamic pawning.

### **Analysis of Goods Pawning Mechanisms in Bilalang Satu Village**

The goods pawning mechanism that applies in Bilalang Satu Village generally begins when the party who needs funds (borrower) contacts the capital owner (creditor) to borrow money with movable property as collateral such as gold, electronics, or vehicles. The loan amount is usually determined at 60-80% of the collateral value.

The pawning agreement is carried out verbally without any legally valid written evidence. The pawn guarantee is then fully controlled by the creditor. There is an agreement to pay interest of 20% per month on the principal loan until the debt is paid off. Interest applies continuously without any time calculation.

If the borrower fails to pay by the deadline, the creditor has full rights to own the collateral without having to go through the auction procedure as

regulated by law. Creditors are also free to put pressure and intimidation on borrowers such as disseminating unpaid information on social media.

This analysis shows that the goods pawning mechanism in Bilalang Satu Village contains a number of fundamental weaknesses. First, it is vulnerable to usury and speculation because there is no clarity on the size of loans and interest [19]. Second, it does not have legal certainty due to the absence of written transaction evidence [20]. Third, it has the potential to harm the borrower in the event of default [21].

Therefore, a breakthrough improvement is needed by applying the concept of Islamic pawning based on the value of justice. Some of the principles include written contracts, transparent measures, guarantees only as deposits, no interest or additions, and an auction process in the event of default [22], [23].

From an Islamic economic perspective, the current pawning practice in Bilalang Satu Village contains a number of deviations from the principles of fair and prosperous muamalah. Specifically, there are issues of information asymmetry and elements of usury. Information asymmetry occurs because there is no certainty of pawning transactions in writing. As a result, the bargaining position of the borrower is very weak and prone to exploitation from creditors. Meanwhile, usury arises from setting interest at 20% per month without a time limit which burdens the villagers [24].

According to Indriasari [18], the concept of pawning in Islam (rahn) is actually only a guarantee, not for seeking profit. Collateral must also be maintained and returned when the debt is paid off [25]. This is very different from the usurious pawning practice in Bilalang Satu Village.

Therefore, a reconstruction of a fair pawn contract based on sharia is needed. The Village Government needs to make Islamic pawning regulations that protect the rights of borrowers. It is also necessary to introduce Islamic microfinance institutions such as BMT to avoid dependence on moneylenders [26]–[28]. With this multidimensional approach, pawning practices in Bilalang Satu Village are expected to reform towards a fair and prosperous system in an Islamic manner.

## **Review of Pawning Practices in Bilalang Satu Village from an Islamic Economic Perspective**

Sharia-compliant pawning practices in Indonesia have been regulated in the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) Number 25/DSN-MUI/III/2002 concerning Rahn [29]–[31]. In general, the rules for Islamic pawning according to the fatwa include: (1) Islamic pawning is carried out with a Rahn contract accompanied by an Ijarah contract; (2) Collateral

goods must be legally owned by the borrower; (3) Determination of maintenance and storage costs for goods (ujrah) may not be based on the loan amount; (4) The sale of collateral must go through the correct and fair procedure; (5) The excess proceeds from the sale belong to the owner of the pawned goods after deducting costs and debts.

In addition, the rules for Islamic pawning in Indonesia also refer to Law Number 21 of 2008 concerning Islamic Banking [32]. Relevant rules, for example, are related to pawn contracts that must be written and the implementation of auctions in the event of default [33]. Informal pawning practices at the grassroots community level such as in Bilalang Satu Village are actually possible to be adjusted to sharia rules. The condition of minimal access to formal Islamic financing is often considered as a justification for conventional interest-based pawning practices [34]. In fact, the fatwa of the National Sharia Council of the Indonesian Ulema Council has accommodated non-formal financial institution pawn models as long as they comply with a number of principles.

Some of the principles referred to include the obligation to enter into a written contract, limiting the maximum loan amount to 95% of the value of the goods, not burdening one party in pawning operational costs, and referring to a fair auction mechanism in the event of default. By adhering to this sharia framework, informal pawning practices in the community can actually be reformed into fair, transparent transactions that benefit the parties without causing harm. Socialization of this model to the community is considered to be more constructive than the negative stigma towards non-bank pawning.

Fair and ethical Islamic pawning practices actually have a strong foundation in the Quran and Hadith. As Allah says in QS. Al-Baqarah [2]: 283 which means: "And if you are on a journey and cannot find a scribe, then a security deposit [should be] taken. And if one of you entrusts another, then let him who is entrusted discharge his trust [faithfully] and let him fear Allah, his Lord."

This verse confirms that pawning as collateral for accounts payable is permitted in Islamic law. The words of the Prophet Muhammad narrated by Thabrani state that "pawned goods must be kept intact by the pawn recipient. He may not take advantage of the pawned object."

So it can be understood that Islam views pawning not merely as material collateral, but also as a mandate that contains responsibility [35], [36]. This principle must be firmly held in informal pawning practices in the community, including Bilalang Satu Village, not just seeking profit. Based on the Quran and Hadith, a total reform towards a fair and prosperous Islamic pawning system is very possible to implement.

The current rampant pawning practice in Bilalang Satu Village is driven by the ease and speed of access to loans, but contains usury which is prohibited in Islam. To understand this phenomenon, an analysis of the Islamic economic perspective is needed. According to the Islamic view, loans must be given with the intention of worship alone, not for commercial purposes. Pawning (rahn) only functions as collateral, not as a means of obtaining additional profits, let alone usury from borrowers [37]. Therefore, the excess loan value of the collateral and the determination of periodic interest in the case of Bilalang Satu Village clearly contradicts Islamic principles.

Apart from the issue of usury, pawning practices in this village have the potential to cause economic exploitation [38]. Community dependence on village loan sharks can lead to debt bondage due to multiple interest [39]. This condition is certainly contrary to the concept of populism in Islamic economics which prioritizes justice, equality, and anti-usury [40].

To overcome this problem, the first step that can be taken is an Islamic pawning education program to increase the understanding of the people of Bilalang Satu Village. In addition, it is necessary to strengthen sharia-based village economic institutions such as Baitul Maal wat Tamwil (BMT), sharia cooperatives, or productive economic business units [41]. These institutions can be an alternative financing solution for villagers with a fair and prosperous scheme [42].

Thus, this study highlights that pawning practices in Bilalang Satu Village contain usury and are potentially exploitative. Islamic pawning education steps and strengthening of sharia-based village economic institutions are needed to achieve justice and mutual benefit in Bilalang Satu Village. The current rampant pawning practice in Bilalang Satu Village clearly contradicts the principles of muamalah in Islamic economics. There is an element of usury which is reflected in the determination of periodic interest of 20% per month. In addition, the loan value given is also lower than the pawning value, so it contains potential irregularities. This condition is exacerbated by the weak legal formal aspect due to the absence of written transaction evidence or regulations that protect the rights of borrowers.

The main problem with pawning practices in Bilalang Satu Village actually lies in the lack of public understanding regarding the pawning mechanism that is in accordance with sharia. Therefore, the first step that can be taken is a literacy and education program regarding the concept of Islamic pawning, both for the community and loan providers in the village. The village government and religious leaders need to take part in socializing fair pawning principles based on the Quran and the Hadith of the Prophet Muhammad.



On the other hand, it is necessary to strengthen alternative Islamic financing solutions such as cooperatives or BMTs that can reach all levels of society in Bilalang Satu Village. The existence of these Islamic financial institutions is important to prevent villagers from being trapped in the practice of loan sharks in the name of usury-based pawning [28]. Through strengthening Islamic pawning literacy and inclusion, it is hoped that pawning practices in Bilalang Satu Village can be in line with the values of Islamic economics which are tolerant, humanist, and benefit the ummah.

The current pawning practice in Bilalang Satu Village is still far from the rules and principles of Islamic pawning that have been stipulated by the DSN MUI fatwa and the Islamic Banking Law. A total restructuring needs to be carried out so that it is in accordance with sharia and no longer burdens and harms the villagers themselves. The strong sharia foundation from the Quran, Hadith, Islamic Banking Law and DSN-MUI Fatwa has actually provided clear guidelines regarding fair and ethical pawning practices [29], [32], [34]. The next challenge is how these sharia values can be implemented in the lives of the people of Bilalang Satu Village who have been accustomed to the conventional pawning system [43], [44].

### **Policy Recommendations for Goods Pawning in Bilalang Satu Village to Comply with Sharia Principles**

The current pawning practice in Bilalang Satu Village is colored by various irregularities that are not in accordance with Islamic sharia. The majority Muslim villagers are ironically trapped in the bondage of usurious and exploitative pawning practices. This condition is certainly unfortunate and urgent to be reorganized immediately.

A breakthrough solution is needed through targeted policy recommendations. First, comprehensive socialization and literacy related to the concept of Islamic pawning needs to be intensified, both through regular recitations, pamphlets, and social media [45]. That way, the people of Bilalang Satu Village can understand that the current pawning practice deviates from religious teachings.

Second, the Bilalang Satu Village Government needs to implement regulations in the form of special Village Regulations regarding Islamic pawning procedures. This regulation is important so that there is legal certainty and protection for villagers in transactions. Furthermore, the establishment of a Sharia Pawn Cooperative can be a solution for the borrowing and lending needs of villagers with an applicable sharia. With these two steps, it is hoped that the pawning practice of the people of Bilalang Satu Village will again comply with

the guidance of Islamic sharia which is polite, fair, and framed by divine moral values. Of course this will be very beneficial both spiritually and socially in the village. Socialization and regulation of Islamic pawning can be designed through a public participation approach. This means that policies cannot be determined in a top-down manner by the village government, but must accommodate the aspirations and needs of residents.

Several concrete programs with this approach include open discussions on pawning problems faced by the community, comparative programs of Islamic pawning practices to areas that have successfully implemented them, to workshops with religious leaders and academics to formulate draft regulations on Islamic pawning.

This participatory approach is important so that the resulting policies can be truly relevant and accepted by the people of Bilalang Satu Village. Cultural and sociological obstacles of village communities will be easier to identify and find solutions through this grassroots approach. For example, some poor residents who are very dependent on pawn loans need to be prepared first for alternative financial solutions before usurious pawning practices are totally prohibited in the village. Thus, changing the behavior and habits of villagers in pawning requires the right strategy and approach. A participatory and grassroots approach is seen as the most effective and sustainable for reforming the application of Islamic pawning in Bilalang Satu Village. The recommended pawning policy also becomes more credible and well received by residents.

## **Conclusion**

The current pawning practices in Bilalang Satu Village are dominated by conventional mechanisms that deviate from sharia principles. There are elements of usury from the 20% interest per month, potential exploitation due to loan values lower than the pawned items, and collective intimidation of defaulting customers. This condition is exacerbated by the community's minimal understanding of Islamic pawning. Therefore, a regional legal framework in the form of a Village Regulation on Islamic Pawning is needed as a guideline for transactions that protect the rights of villagers. This should be accompanied by the establishment of an Islamic Pawning Cooperative as an alternative inclusive financial solution for all levels of society in Bilalang Satu Village. These reform efforts need to be carried out through a participatory approach that involves public aspirations. Open discussions about pawning issues faced by villagers can be a starting point in formulating contextual policy drafts. Furthermore, there needs to be an Islamic pawning management training program, technical guidance for its implementation, and capital assistance for vulnerable groups such as ultra-micro entrepreneurs. Thus, the resulting policies are truly in

accordance with the needs and accepted by the people of Bilalang Satu Village. Overall, the urgency of Islamic pawning reform in Bilalang Satu Village is not merely at the financial level, but also social. In addition to preventing illegal practices that harm villagers, this policy is important to align the pawning traditions of the village's Muslim community with Islamic values that are *rahmatan lil alamin* (a mercy to all creation). Transforming the views and behavior of the community certainly requires sustainable work from various elements, from village government, religious leaders, academics, to religious activists.

### **Author Contributions**

**Faradila Hasan** was responsible for the conceptualization of the study, reviewing and editing the manuscript, supervising the research process, and managing the project administration. **Evra Willya** contributed to the methodology development and conducted the investigation. **Siti Sugianti Ngurawan** was involved in the conceptualization, reviewing and editing the manuscript, and participated in the investigation. **Moh. Muzwir R. Luntajo** contributed to reviewing and editing the manuscript and was also involved in the investigation process. All authors have read and agreed to the published version of the manuscript.

### **Acknowledgement**

The authors would like to express their sincere gratitude to the leadership of IAIN Manado and IAIM Kota Kotamobagu for their invaluable support throughout the research process. Their encouragement and assistance were instrumental in the successful completion of this article. We are deeply appreciative of the resources and backing provided by both institutions, which significantly contributed to the quality and depth of our study.

### **Conflict of Interest**

The authors declare no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.

### **Funding**

his research did not receive any financial support.

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